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Russia's Nord Stream 2 Pipeline: Continued Uncertainty

Uncertainty continues to cloud the future of Nord Stream 2, an unfinished natural gas pipeline that would increase the amount of Russian natural gas exported directly to Germany and on to other European countries, bypassing Ukraine and other transit states (**Figure 1**). Successive U.S. Administrations and Congresses have opposed Nord Stream 2, reflecting concerns about European dependence on Russian energy and the threat Russia poses to Ukraine. In January 2021, the Trump Administration imposed congressionally authorized sanctions on the Russian vessel *Fortuna* and its owner for supporting Nord Stream 2's construction. The Biden Administration has expressed opposition to the pipeline and has stated it intends to review existing sanctions in consultation with European partners.

Nord Stream 2 construction was initially suspended in December 2019, after the passage of U.S. legislation establishing sanctions related to the pipeline. At the time, fewer than 100 miles of the approximately 760-mile long pipeline system (consisting of two parallel lines) remained to be laid. Construction of a small section resumed in December 2020. Although the United States has imposed sanctions on the *Fortuna*, reports indicate that the vessel has begun its work on the pipeline. The German government continues to support Nord Stream 2. German and EU officials, including some opponents of the pipeline, have condemned U.S. sanctions as an infringement on national sovereignty that could have negative repercussions for broader transatlantic cooperation.

Background

Nord Stream 2 is being constructed alongside the Nord Stream 1 pipeline, in operation since 2011. If completed, Nord Stream 2 would double the total capacity of the system, from 55 billion cubic meters (BCM) to 110 BCM per year. Nord Stream 2 is owned by the Russian state-owned energy company Gazprom. About half the cost is reportedly financed by five European companies: Engie (France), OMV (Austria), Shell (Netherlands/UK), Uniper (Germany), and Wintershall (Germany).

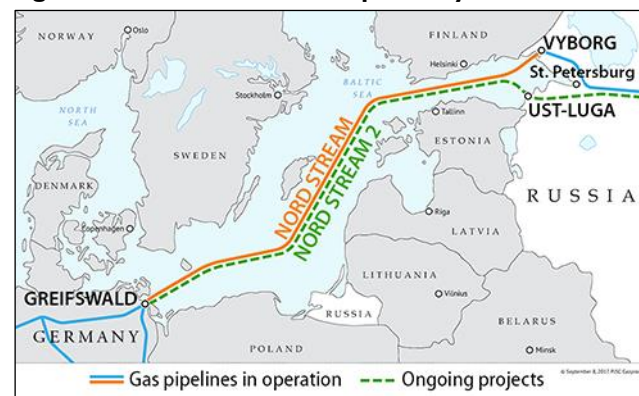
Support and Opposition

Although the EU has articulated an ambitious energy diversification strategy, some European governments have not reduced dependence on Russian gas, which accounted for about 45% of EU natural gas imports in 2019 and 39% of imports in the first half of 2020. Factors behind continued reliance on Russian supply include diminishing European gas supplies, financial investments by Russia in European infrastructure, and the perception of many Europeans that Russia remains a reliable supplier.

Supporters of Nord Stream 2, including the German and Austrian governments, argue the pipeline will enhance EU

energy security by increasing the capacity of a direct and secure supply route. German officials say they support the development of infrastructure to ensure that gas can be transported across Europe once it reaches Germany. They stress that Germany supports broader European energy supply diversification efforts, including construction of new liquefied natural gas (LNG) terminals in northern Germany.

Figure 1. Nord Stream Gas Pipeline System



Source: Gazprom, edited by CRS.

Opponents of the pipeline—including, among others, some EU officials, the European Parliament, Poland, the Baltic states, Ukraine, the Trump and Biden Administrations, and many Members of Congress—argue that it will give Russia greater political and economic leverage over Germany and others that are dependent on Russian gas, leave some countries more vulnerable to supply cutoffs or price manipulation by Russia, and increase Ukraine's vulnerability to Russian aggression.

More recently, pipeline opponents, including within Germany, have argued the German government should block the pipeline in response to malign Russian activity, including a nerve agent attack against and arrest of Russian opposition figure Alexei Navalny. German political leaders have uniformly condemned Russia's actions against Navalny, but Chancellor Angela Merkel and others continue to argue that the infrastructure project can be "decoupled" from ongoing political disputes with Russia.

Impact on Ukraine

In recent years, Russia has sought to reduce the amount of natural gas it transits through Ukraine. Before Nord Stream 1 opened in 2011, about 80% of Russia's natural gas exports to Europe transited Ukraine. In 2018, about 40% of these exports transited Ukraine.

In December 2019, after the United States established new sanctions related to Nord Stream 2, Gazprom and the Ukrainian state-owned energy company Naftogaz renewed

a contract for the transit of Russian natural gas to Europe from 2020 to 2024. The contract provided for transit of at least 65 BCM in 2020, a volume equal to about 73% of the 2019 volume, and 40 BCM a year from 2021 to 2024, a volume equal to about 45% of the 2019 volume. In 2020, Russia shipped about 56 BCM to Europe via Ukraine, although Ukraine received the full contracted amount of \$2.1 billion in transit revenues.

If Nord Stream 2 becomes operational, observers expect Russia to further reduce gas transit through Ukraine. This would not necessarily increase Ukraine's vulnerability to energy supply cutoffs; Ukraine stopped importing natural gas directly from Russia in 2016. It could lead to declines in transit revenues, however, and increase Ukraine's strategic vulnerability, if reduced dependence on transit leads Moscow to act more aggressively in Ukraine.

U.S. Sanctions

Congress and successive U.S. Administrations have opposed Nord Stream 2 since the pipeline's inception. Increasingly, congressional efforts to block the pipeline have focused on sanctions, including through progressively more stringent sanctions legislation enacted in 2017, 2019, and 2020.

The Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEA, P.L. 115-44, Title II) states that it is U.S. policy to "oppose the Nord Stream 2 pipeline given its detrimental impacts on the EU's energy security, gas market development in Central and Eastern Europe, and energy reforms in Ukraine." In 2018, the House of Representatives passed H.Res. 1035, which called for the cancellation of Nord Stream 2 and the imposition of sanctions with respect to the project.

Section 232 of CRIIEA authorizes sanctions on those who invest at least \$1 million, or \$5 million over 12 months, or provide goods, services, or support valued at the same amount for the construction of Russian energy export pipelines (22 U.S.C. §9526). On January 19, 2021, the Trump Administration imposed sanctions on the Russian vessel *Fortuna*, which Gazprom is using to complete construction of Nord Stream 2, and its corporate owner KVT-RUS, pursuant to Section 232.

Additionally, the Protecting Europe's Energy Security Act of 2019, as amended in 2020 (PEESA; 22 U.S.C. §9526 note; P.L. 116-283, §1242), establishes sanctions on foreign persons whom the President determines have sold, leased, provided, or facilitated the provision of vessels for the purpose of subsea pipe-laying activities related to the construction of Nord Stream 2 and TurkStream (another Russian pipeline that is to supply natural gas to Europe), or any successor pipeline. TurkStream's subsea pipeline to Turkey was inaugurated in January 2020. As amended, PEESA also targets those who provide underwriting services or insurance, or who provide certain upgrades or installation services. Sanctions do not apply to non-business entities of the EU, member states, or the governments of Norway, Switzerland, and the United Kingdom.

PEESA provides for various exceptions and waivers and authorizes the President to terminate sanctions if the Administration certifies to Congress "that appropriate safeguards have been put in place" to minimize Russia's ability to use the sanctioned pipeline project "as a tool of coercion and political leverage," and to ensure "that the project would not result in a decrease of more than 25 percent in the volume of Russian energy exports transiting through existing pipelines in other countries, particularly Ukraine."

Response to U.S. Sanctions

Although the United States has not imposed PEESA-related sanctions, the threat of sanctions appears to have encouraged some companies to withdraw from the Nord Stream 2 project. The day after PEESA was enacted in December 2019, Allseas, a European company that had been laying the pipeline, stated that it was suspending its activities. In January 2021, after PEESA was amended to authorize broader sanctions, at least three European companies, including a certifier and an insurer, reportedly withdrew from the project.

Despite ongoing questions about the viability of the pipeline, *Fortuna* reportedly is continuing work and Russian officials state the pipeline will be completed. In January 2021, the German regional government where Nord Stream 2 is projected to make landfall announced the establishment of a government entity intended to shield companies involved in pipeline construction from U.S. sanctions.

Some European governments, including opponents of Nord Stream 2, have joined the German government in criticizing U.S. sanctions. EU officials on record as opposing the pipeline have stated that the EU rejects as a "matter of principle" the imposition of sanctions against EU companies conducting legitimate business in line with European law. Other opponents of the pipeline, such as the Polish government, support sanctions as necessary to prevent completion of the project.

Germany's continued support for the pipeline has prompted some critics of both Nord Stream 2 and U.S. sanctions to argue that U.S. diplomatic efforts should focus more on ensuring that Ukraine maintains its leverage as a gas transit country even if the pipeline is built. This could include securing a commitment from Germany for punitive measures against Russia should Nord Stream 2 supplant gas flows through Ukraine. Proponents of this approach express concern that U.S. sanctions on European companies could jeopardize U.S.-German and U.S.-European cooperation in other areas, including countering Russian aggression, while failing to prevent the pipeline's construction.

For related products, see CRS Report R42405, *European Energy Security: Options for EU Natural Gas Diversification*; and CRS In Focus IF11177, *TurkStream: Russia's Newest Gas Pipeline to Europe*.

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